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TAGS: ECON EINV EIND PGOV PREL NI
SUBJECT: NIGERIA'S VERSION OF MCDONALD'S SAYS PROFITS ARE DOWN

¶1. (SBU) Summary. The increase in food and transportation prices had cut into the profit margins of Nigeria's equivalent to McDonald's -- Mr. Biggs. The company's executives told us food prices are rising because of weak infrastructure, inconsistent agricultural policies, and lack of local capacity to match demand for certain staple foods. Executives stated profit margins decreased by one to two percent from 2004 as the restaurant was forced to find substitutes for food items such as rice. End Summary.

Mr. Biggs - Nigeria's Own McDonalds

¶2. (U) The United Africa Company (UAC) is one of Nigeria's largest, diversified companies involved in agriculture, manufacturing, logistics and warehousing, and the food and beverage service industry. It owns the largest chain of fast food restaurants in Nigeria -- Mr. Biggs with 137 stores nation wide, including: Lagos (53), Port Harcourt (13), Ibadan (8) and Abuja (7). UAC also produces its own brand name ice cream, bread, and cereal goods.

Rising Food Prices Hurt Profit Margins

¶3. (SBU) UAC Head of Finance, Layi Adetomiwa, told us food price increases as well increases in fuel prices, transportation costs, and infrastructure costs were cutting into the company's profit margins. Cost of production has risen by 15-20 percent over last year, he said. Last year, Mr. Biggs exceeded sales of naira 10 billion (USD 77 million) with a profit margin of eight percent. This year, with more stores, projected sales are between naira 11-12 billion (USD 85 million to USD 92 million), but the profit margin has been reduced by one to two percent, Adetomiwa said. Company executives have indicated that they are now placing greater focus on providing restaurant services to foreign oil companies to recuperate some of the lost revenues from its local restaurant businesses.

¶4. (SBU) Increased food prices forced the company to shift additional costs onto consumers by raising the price of many menu items. Consumers are now paying 10% higher prices than in 2004. Meat pies, a very popular item, sell now for naira 100 (USD .76) as opposed to naira 90 (USD .68) last year and combination meals (consisting of rice, chicken, and vegetables) now sell for naira 350 (USD 2.69) as opposed to naira 320 (USD 2.46) in 2004. Mr. Biggs is also finding substitutes for rice because "there is not enough local capacity to provide good quality rice," Adetomiwa said.

5.(SBU) Comment. Nigeria's Federal Office of Statistics (FOS) reports an increase of 18% for various staple foods during the past year. Nongovernmental industry experts give a higher estimate. Depending on their location and on their particular dietary mainstays, the average consumer in Nigeria is paying between 20-60% more for various staple food items than 2004, calculating for both inflation and naira fluctuations. A 50 kilogram bag of rice now sells for naira 6,000 (USD 46) as opposed to naira 4,500 (USD 35) last year, an increase of 33%. Imported food items like frozen chicken and turkey now sell for naira 4,000 (USD 31) per 10 kilogram carton, as opposed to naira 2,500 (USD 19) in 2004, an increase of 60%. A standard loaf of bread now sells for naira 150 (USD 1.12) as opposed to naira 120 (USD .90) in 2004, as input costs for sugar and wheat, increased. According to industry experts, food items like beans and maize have increased by 16.7% and 54% respectively. End Comment.

Weak Infrastructure and Inconsistent
Agricultural Policies Hurt Food Industry

¶6. (SBU) UAC representatives said poor infrastructure remains the key obstacle in local companies' ability to provide lower priced meals and services to consumers. Inadequate power

supply and bad roads significantly increased transportation and production costs. UAC CEO, Ayo Ajayi, believes Nigeria has the capacity to export agricultural products, but inadequate infrastructure and an undercapitalized agricultural sector are major obstacles. Adetomiwa said that "years of inconsistent agricultural policies had led to an underdeveloped sector."

Comment

¶7. (SBU) Comment. The rising cost of food has hurt both the average Nigerian and the local restaurant industry. Fuel price increases, bans on agricultural products, and high infrastructure costs negatively affected UAC and other companies involved in the food industry. If Nigeria's largest fast food chain restaurant felt the impact of higher costs, it is almost a sure bet that less financially robust companies have felt an even deeper sting. So long as imprudent agricultural policies remain in play, 2006 is likely to be a repeat of 2005 for the local food and restaurant industry. End Comment.
BROWNE